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INTELLIGENCE MEMORANDUM

THE KARACHI STEEL MILL PROJECT

DIRECTORATE OF INTELLIGENCE

Office of Current Intelligence

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USAID review
completed

State Dept. review
completed

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CENTRAL INTELLIGENCE AGENCY
Office of Current Intelligence
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INTELLIGENCE MEMORANDUM

The Karachi Steel Mill Project

1. Pakistani Finance Minister Mohammad Shoaib is coming to Washington, at his own suggestion, for conversations with US officials between 18 and 27 April. In recent talks with the US ambassador in Karachi, the pro-Western finance minister has emphasized that the number-one aim of his trip will be to seek final approval of an application for a loan of about \$85 million by the Export-Import Bank for construction of a steel mill project near Karachi. While here, he also hopes to obtain an additional commodity loan of \$80 to \$90 million and to discuss Pakistan's urgent need for wheat and vegetable oils under PL 480.

2. Plans for the steel mill project date back to 1961. Over the years, the original concept has been altered through repeated feasibility studies and examinations and re-examinations of various aspects of the plan. As originally conceived, the plant would have produced some 350,000 tons of steel products per year and would have cost \$136.5 million, of which \$67 million was to come from an Export-Import Bank loan. By January 1966, the planned capacity had increased to 450,000 tons per year, and the cost had been revised upward to \$260 million. The total US contribution would be \$120 million, of which \$85 million would be in the form of an Export-Import Bank loan.

3. Pakistani leaders from the beginning have regarded US participation in the project as vital. In the period since 1961, however, US-Pakistani relations have deteriorated markedly and officials in Karachi increasingly have accused the US of withholding assistance for the steel mill project on

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political, rather than economic, grounds. Shoaib recently stated that he has been informed the project is technically ready for approval and that only a "political" decision by the US Government is required for final authorization by the Export-Import Bank.

4. Shoaib timed his trip to the US to fall only two weeks after Indian Prime Minister Gandhi's visit to Washington and approximately one month before he must prepare the Pakistani budget for fiscal year 1967 (beginning 1 July 1966). He apparently hopes that after Mrs. Gandhi's visit, which followed one by President Ayub last December, the US will be in a position to make important decisions on economic assistance programs for South Asia. Decisions on new economic aid pledges for India and Pakistan were suspended indefinitely last autumn during the Indo-Pakistani hostilities.

5. Shoaib hopes that upon his return from Washington he will be able to announce approval of the steel mill loan. He claims such approval would have a profound political effect on US-Pakistani relations. The embassy in Karachi gives support to his view, terming authorization of the steel mill project of the highest priority from the point of view of an impact on the general public and key government members. Shoaib complains that continuing delay is proving an embarrassment to those in the Pakistani Government endeavoring to preserve a pro-US orientation. He warns that Karachi is committed to go through with the project and will have to look elsewhere for financing if the US cannot come through.

6. The AID director in Pakistan, in discussing the upcoming trip with Shoaib, warned him that the resumption of full-scale US economic assistance is dependent on evidence that Pakistan's political orientation is toward the West, not Communist China, and that Pakistan must be prepared to assign highest priority to its economic development program. US officials have expressed concern to Shoaib and other cabinet members over the proposed levels of defense expenditures for next year, which can be attained only through use of funds which would otherwise be assigned to economic development. Pakistan's flirtation with Peking has been given wide publicity recently

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by the red-carpet treatment accorded Communist China's President Liu Shao-chi during his visit to West Pakistan. There is some evidence, however, that the Chinese visit, apparently arranged last December, is causing embarrassment and concern among Pakistani leaders at a time when they are pushing for renewal of US economic assistance.

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